

Executive Summary

The USAID Serbia and Montenegro (SAM) Mission will begin implementation of a new multi-year strategy for the Republic of Serbia in FY2006 (the Strategy) which will serve as the foundation for future programs. The proposed strategic framework described in this document is based on an extensive series of assessments and analyses by local and international experts, stakeholder meetings with central and local government representatives, civil society and other donors, and two two-day retreats with mission staff. Input was also gathered through meetings with Embassy and Washington staff, including the Interagency Country Assistance Review (ICAR) and the Prestrategy Consultation. Strategy design also incorporated key policy frameworks and guidance embodied in USAID's U.S. Foreign Aid: Meeting the Challenges of the Twenty-first Century (known as the "White Paper"), the E&E Bureau Strategic Framework, the State/USAID Strategic Plan and the U.S. Embassy's FY 2007 Mission Performance Plan (MPP).

The Strategy addresses the Republic's development needs, while at the same time remaining in line with U.S. Government (USG) foreign policy objectives. It also conforms to new Agency guidance that includes a more visionary and flexible approach to strategy design, arguably further justified in the cases of Serbia and Montenegro, where a number of political uncertainties, including the status of Kosovo and the State Union of Serbia and Montenegro, could impact country needs as well as USG objectives. The Mission has adopted an innovative approach to strategic objectives that integrates key democracy and economic growth components to respond to this environment. In strategy design, attention was also focused on the comparative contexts and needs of both Serbia and Montenegro, and whether separate strategic frameworks were necessary. Although at different points on the road to development, Serbia and Montenegro face many of the same issues. Accordingly, although the Mission is presenting separate strategy papers for Serbia and Montenegro, the same basic framework and strategic objectives apply to both, with differences most likely to emerge below the intermediate result (IR) level, as well as in performance targets.

Like the transitional countries in the E&E region, Serbia faces a wide range of developmental obstacles. The move from a centralized to a market economy requires government and citizens anywhere to make difficult choices. However, while countries like Bulgaria and Romania¹ started on this demanding path in 1989, Serbia did not initiate its reform process until early 2001. More than ten years of economic, social and institutional deterioration that preceded 2001 seem to have left a more difficult legacy than the stabilization and reform vagaries facing other countries in Central and Eastern Europe in the early 1990s. In the case of Serbia, there was a loss of international markets due to international economic sanctions, as well as reluctance to impose financial discipline and build government institutions. There is also deep resentment over the widespread decline in its status and conditions that, though difficult to measure, is nonetheless an important factor in further reform. Although Serbia has been on a definite, if not always linear, path of economic and political reform since 2001 and has had impressive accomplishments, the Republic today lags behind many of its neighbors. It is at a particularly difficult point of the transition path where the benefits of a market democracy have not materialized for most residents, even as additional painful steps need to be taken. Uncertainties regarding EU expansion could reduce the value of EU integration as a key motivator for reform. The absence of an effective coalition of democratic political parties and excessive infighting among them has resulted in a lack of political and public consensus on key transition policies and consistent political will to make difficult but necessary reforms. Attention to reform is also diverted by issues such as the status of Kosovo and the State Union of Serbia and Montenegro, and compliance with the International Criminal Tribunal for the Former Yugoslavia (ICTY). Once Kosovo status talks reach the next level, regardless of outcome, there is potential for negative and possibly destabilizing effects in Serbia. The impact of fragmented political leadership has been exacerbated by the presence of political appointees in what should be professional, civil service positions throughout executive agencies, leaving little expert institutional memory. This dangerous cycle of a weak public sector, transition delays and an increasingly disillusioned electorate that has not seen positive change, has created opportunities for a rise in the influence of nationalist and populist parties, with their better organization and consistent appeal to a substantial block of voters. Consequently, although many positive changes have taken place in Serbia in a relatively short period of time, much work remains to be done and there is cause for concern given the current political situation. Taken together, all of these

factors could still tip the balance against Serbia's reform process and, in the worst case scenario, its stability.

This Strategy addresses this challenging development context and derives from an overall vision of a democratic, prosperous Serbia (and Montenegro), moving toward Euro-Atlantic integration. Key themes include: improved governance accountable to constituents and responsive to the needs of the private sector that, in turn, improves conditions for a market economy; more targeted assistance to municipalities and sectors to foster private sector growth; and increased political stability through strengthened democratic processes and structures, as well as more specific interventions in vulnerable areas. Given the crucial economic and democratic components embedded in each theme, an integrated approach that combines these elements in program design, implementation and measurement will have a higher aggregate impact. Integration of strategic elements reflects the philosophy that democratic and economic reforms are not only critical to an overall successful transformation in Serbia, but also inextricably linked to achieving successes in each reform area; democratic processes are an essential component of Serbia's economic growth and stability, and economic growth is essential to create the conditions for a continuing stable democracy. Reform in the social sector is also necessary; however, given the relative priority of economic and democratic challenges and the scarcity of resources to impact reform, it will not be a priority theme of the Strategy. The Strategy has three Strategic Objectives (SOs):

- Strategic Objective 1.31: Democratic Governance of the Market Economy Strengthened. This SO concentrates on work at the republic level, strengthening policy and legal frameworks and implementation of those frameworks. A key component of the SO is improved governance, with better balance and delegations of authorities, cohesive policies and accountability to the public.
- Strategic Objective 1.32: Enterprise Growth Increased in High Potential Sectors and Municipalities. This SO captures the local dynamic for private sector growth by improving the business climate and the capacity of key sectors and businesses to compete in the market.
- Strategic Objective 2.11: Risk of Political Instability Reduced. This SO will focus on the support of key democratic structures and processes at all levels Republic-wide to increase political stability. It will also improve conditions in specific, vulnerable areas, by increasing economic opportunities, civic participation and community interventions.

Key cross-cutting areas recognized in this Strategy are: gender, youth, anti-corruption, human and institutional capacity development, job creation, media/public information, and cross-border integration.

Endnote:

¹ In the E&E Bureau's Monitoring Country Progress Report, the progress made by Bulgaria and Romania at the time of NATO accession is used as a graduation threshold for the rest of the region.